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SUBJECT: Huawei - Chinese Telecom Firm Plans for Growth in U.S. Market

¶1. (U) Classified by Economic/Political Section Chief Stephan Lang for reasons 1.4 (b) and (d).

¶2. (C) Summary: Huawei will nearly double its U.S. workforce this year, according to executives who briefed visiting students from the U.S. National Defense University's Industrial College of the Armed Forces (ICAF). The global telecommunications equipment manufacturer and solutions provider headquartered in Shenzhen will soon have facilities in 10 U.S. cities. It continues to grow through the economic downturn, expecting 2009 revenue to be up about 29 percent from last year. Emphasizing the firm's commitment to research and development, executives said that Huawei had filed more applications under the international Patent Cooperation Treaty last year than any other company in the world. Repeating statements that Huawei is a private, employee-owned company, the executives said its rapid expansion had been financed primarily by company profits. The briefing concluded with the senior Huawei executive repeating an oft-asked question about why western media continues to portray the company as controlled by China's government and expressing the company's desire to engage in more dialogue with international actors to counter this notion. End summary.

#### Expanding Presence in the United States

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¶3. (C) Huawei plans to grow its U.S. workforce dramatically in 2009, according to Ross GAN, the firm's global branding manager. In a briefing for U.S. military and civilian students from the ICAF, Gan said the firm now employs more than 560 people in the United States with a localization ratio of more than 70 percent. It plans to employ a total of 1000 U.S. employees by January 2010.

¶4. (C) Huawei's U.S. research and development (R&D) and sales office locations in the United States have also expanded quickly in recent years. It first established a U.S. presence in 2001 at its Plano, Texas, headquarters. Gan said Huawei's U.S. locations now include Dallas, San Diego, Santa Clara, Chicago, New Jersey, San Antonio, Walnut Creek, Philadelphia, Denver, and a new office in Seattle that will open soon. In addition, the company has worked aggressively to

establish joint research labs with technology partners that include Microsoft, HP, Qualcomm, Texas Instruments and Infineon. Gan said Huawei has also entered joint ventures with other technology partners like Global Marine, Symantec, Motorola and Nokia-Siemens.

¶15. (C) Gan emphasized how Huawei's management and business models have been strengthened by partnerships with U.S. firms. He said IBM consultants have worked with Huawei executives on leadership development, quality control and other key business processes. Accenture helped Huawei develop its customer relations management system, Hay Group has been a major consultant for modernizing Huawei's human resources processes, and PricewaterhouseCoopers has been instrumental in developing sound financial management systems.

#### Huawei's Growth Has Not Slowed

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¶16. (C) Huawei's vice president of global marketing, Chaowen (Charles) HUANG, said the company's annual revenue is expected to exceed USD 30 billion this year, up from USD 23.3 billion in 2008. The company has grown steadily since 2004 when revenue was USD 5.6 billion. Last year, 75 percent of revenue was generated outside of China, with the highest growth in Latin America at 71 percent and North America (primarily in Canada) at 58 percent. Revenue growth in China last year was 38 percent.

¶17. (C) Although Huawei's core business remains telecom equipment, the company's future lies at the intersection of three core product lines - fixed, mobile and IP (internet protocol) networks, according to Huang. Huawei has positioned itself to compete with fixed network market leaders Alcatel-Lucent and Nortel, mobile network solution leaders Ericsson and Nokia-Siemens, and IP network leaders Juniper and Cisco. Huang claimed that no other firm could offer unified solutions for telecom service providers around the world. Huawei currently supplies more than 35 major telecom service providers, including British Telecom, Vodaphone and Telefonica. Recent projects include new deals with Telus and Bell Canada, Cox Communications in the United States, continued work with eMobile in Japan, and Hutchinson and PCCW in Hong Kong.

#### R&D is Key

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¶18. (C) In response to a question about Huawei's approach to intellectual property rights (IPR), Huang said the company's rapid growth had only been possible because of relentless focus on R&D and technological innovation. He pointed out that the company annually spends 10 percent of total revenue on R&D. Full-time R&D staff exceeds 37,000 people worldwide, including major facilities in Silicon Valley, a wireless technology research center in Dallas-Fort Worth, and 2000 software engineers in Bangalore.

¶19. (C) Huawei filed the most international Patent Cooperation Treaty (PCT) applications in the world for the first time in 2008, according to Huang. The firm had 1,737 PCT applications last year, up from 1,365 in 2007 and just 249 in 2005. Huang said the company's recent technical achievements included the world's first commercial contract for "Long Term Evolution" (LTE) mobile network technologies and the first commercial deployment of single radio access network (RAN) wireless technology.

#### Financing Rapid Growth

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¶10. (C) When asked how the company financed its rapid expansion, Huang repeated public statements that Huawei is a private, employee-owned corporation. He claimed that although Huawei's growth over the last 20 years appeared fast when compared to other Chinese companies, it was average or even a bit slow when compared to U.S. firms like Cisco or Google. Because Huawei is not a publicly listed company and China's capital markets are not as well suited as U.S. markets for raising large amounts of capital, the firm has had to rely primarily on profits to finance expansion, according to Huang. He also said China's large commercial banks had financed some of the firm's expansion. In addition, Huang noted that Huawei had spun off lucrative but non-core subsidiaries such as an energy division that was sold to Emerson and an Internet company that was purchased by 3Com. The sale of the two firms earned Huawei approximately USD 2

billion, which provided additional financing for the firm's growth.

¶11. (C) Huang concluded the discussion by asking why western media continued to portray Huawei as being closely associated with China's government and military. He described the company's ongoing efforts to counter western misperceptions by increasing transparency with the media, customers and the public, as well as more direct interaction with western governments, citing the ICAF visit as an example. The Huawei executives said they would continue these efforts and invited additional opportunities to expand dialogue.

#### A Tour of Huawei's Shenzhen Campus

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¶12. (C) Before the briefing with the Huawei executives, the ICAF visitors were given a guided tour of the firm's 1.3 square kilometer campus, located in Longgang district of Shenzhen. The Huawei facility is close to other major technology manufacturers like Taiwan's Foxconn (Hon Hai) and Singapore's Flextronics. Tour guides said the campus is divided into seven functional "neighborhoods," namely headquarters, R&D, training, manufacturing, data/IT, logistics, and a residential area.

¶13. (C) The group also visited Huawei's data center; a large, two-story stone building where tour guides said the company's server farm was located on the first floor. The group was escorted to the second floor and shown a conference room that overlooks Huawei's call and data system control center, a large hall with rows of phone and computer terminals arranged in front of massive wall-sized projection monitors. Technical support operators, sitting at more than 50 stations, faced large projections of worldwide network and data traffic in real time on the front wall of the control center. One executive commented that the data system "war room" was designed in conjunction with IBM consultants, although many of the features have not yet been tested a true emergency.

¶14. (C) The tour also included a brief walk-through of Huawei's logistics center, an 11,000 square meter automated warehouse, which Huawei employees said was the largest of its kind in China. Guides pointed out that because the storage area of the warehouse is managed entirely by computers and robots using bar code scanners, the logistics operation can run twenty four hours a day without air conditioning or lighting. In addition to the high volume of components entering and leaving the logistics center via cargo truck, a large conveyor belt housed in a wire suspension bridge connects the automated warehouse with the campus's manufacturing center across the road. However, company representatives noted that most of the firm's equipment manufacturing had migrated to factories in nearby Dongguan in recent years.

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